

**Prepared Statement of Gary Broyles**  
**President of the National Association of Wheat Growers**  
**before the**  
**Senate Committee on Commerce, Science and Transportation**  
**Subcommittee on Consumer Affairs, Foreign Commerce and Tourism**  
**April 19, 2002**

Good morning, Mr. Chairman, it is a pleasure for me to be here and I'm grateful for the opportunity to speak with you today on behalf of the U.S. wheat industry on a topic that is of increasing importance to America's wheat farmers.

My name is Gary Broyles. I am a wheat, barley, and cattle producer from Rapelje, MT and currently serve as the President of the National Association of Wheat Growers. Today, I am also speaking on behalf of the Wheat Export Trade Education Committee and U.S. Wheat Associates. On behalf of all of our constituents, thank you Mr. Chairman for conducting this hearing.

I want it clearly understood that we in the national wheat organizations fully supported the North Dakota Wheat Commission's Section 301 petition before the U.S. Trade Representative and are pleased that the affirmative finding issued by Ambassador Zoellick finally acknowledges what our wheat farmers have long known - that Canada's monopolistic wheat trading system disadvantages American wheat farmers and undermines the integrity of our trading system. While we are disappointed the Administration did not provide the tariff rate quotas as North Dakota requested, we are very supportive of the actions which were announced. We are also encouraged by the strong commitment expressed by Ambassadors Zoellick and Johnson to find a way to end the trade distorting practices of the Canadian Wheat Board.

Their commitment to aggressively pursuing a level playing field for our wheat farmers is crucial. A permanent resolution to the problems of the Canadian Wheat Board and its injurious effect on U.S. wheat farmers must be resolved. As you well know, Mr. Chairman, the problems and unfair practices of the Canadian Wheat Board date back to 1989 and the implementation of the Canada-United States Free Trade Agreement.

Much of the problem with Canadian wheat trade practices has resulted from the rendering of an inadequate definition of the term "acquisition price." To ease concerns that the Canadian Wheat Board would sell wheat into the United States below the Canadian farmers' cost of production, language in the Canada-United States Free Trade Agreement specified that neither country could sell agricultural products to the other at a price "below the acquisition price of the goods plus any storage, handling or other costs incurred by it with respect to those goods." This provision did not resolve concerns of the United States, however, since the agreement did not define "acquisition price."

In May of 1992, the United States, believing that Canada was offering wheat export prices below the cost of acquisition, requested a dispute resolution panel under provisions of the Canada- United States Free Trade Agreement. The panel, in its final report, determined that "acquisition price" is defined to include only the Canadian Wheat Board's initial payment. This definition ignores the interim and final payments to Canadian farmers, their subsidized transportation system, grading and inspection fees, and Board administrative costs.

A review of the Canadian Wheat Board's mechanism for paying farmers underscores the inaccuracy of this definition. Before each marketing year, the Board, in consultation with the Canadian Government, makes initial payments to farmers for the delivery of grain to elevators. The initial payment acts as a minimum guaranteed price to the wheat farmer. At the close of the marketing year, final payments are made to farmers reflecting receipts minus all fees for transportation, handling, administration and initial payment. Thus, the full return that the Canadian producer receives, *i.e.*, the full acquisition price, is not paid until the final payment at the end of the marketing year, and sometimes not even until the next marketing year. In other words, the aggregate of the initial, interim and final payments plus the costs, constitutes the real total acquisition price. The initial payment methodology adopted by the panel gives the Canadian Wheat Board tremendous flexibility in manipulating prices without regard to the market value of the wheat being exported. This interpretation has continued to aid Canada's destructive export strategy, which damages U.S. wheat farmers.

The United States Government over the past decade has repeatedly studied the Canadian Wheat Board's activities and recognized an ongoing trade problem through separate trade actions and government investigations. These actions have consistently found that the Canadian Wheat Board restricts competition and as a monopoly state-trading enterprise distorts wheat trade. I have attached to my written statement a chronology of the Canadian wheat problem that I believe is very enlightening, and I would ask that it be made a part of the formal record of this hearing along with my statement.

Mr. Chairman, this chronology highlights both the lengths U.S. wheat farmers have gone to in attempting to resolve this trade problem, as well as the actions of the Canadian Wheat Board and its blatant efforts to stonewall any efforts which may lead to true and meaningful reform of its operations. The General Accounting Office, Department of Commerce, the Department of Agriculture, the U.S. Trade Representative, and even the World Trade Organization have tried to get detailed information and data from the Canadian Wheat Board but have been rebuffed on every occasion. The United States has never been able to get clear and accurate data. Despite the best efforts of the U.S. International Trade Commission in an investigation which did lead to substantial new and damaging information about the Canadian Wheat Board, a close look at the International Trade Commission's final report reveals that once again the pricing data and contract information that is necessary for a conclusive review by our government officials was not forthcoming from the Board.

Not only has the Canadian Wheat Board refused to lift the veil of secrecy on its activities, the

chronology reveals that it enters into negotiations concerning its activities and then refuses to implement any of the agreed upon actions. For example, in 1995, the Canada-United States Joint Commission on Grains released a final report that recommended, among other things, reciprocal access to the other country's grain handling infrastructure, continued deregulation of Canada's rail transportation system, and the standardization of our countries grain inspection methods. The Canadian Wheat Board chose to ignore and not implement most recommendations.

Again in 1998, United States and Canadian officials entered into a Record of Understanding in an attempt to resolve some of these longstanding issues. Again, the Canadian Wheat Board has refused to meaningfully implement many of the issues agreed to under this Record of Understanding, including market access.

This is a sad chronology of events, Mr. Chairman. The fact that the North Dakota Wheat Commission, on behalf of all U.S. wheat farmers, had to once again bring a trade action against the Canadian Wheat Board, speaks volumes to the total disregard one of our major trading partners has for open trade and fair trade not only in the free trade zone of North America but in third country markets as well. The case also speaks volumes to our commitment to resolving this long-standing trade problem. We strongly urge the U.S. Trade Representative address the matter once and for all and negotiate, from a position of strength and with force if necessary, a long-term and meaningful resolution of this matter.

The perfect place to start working towards achieving this goal was the Section 301 trade case against the Canadian Wheat Board. We believe, it has provided the necessary proof, and should provide the tools and leverage to bring the Canadian Wheat Board and the Government of Canada to the negotiating table; forcing them to enter into serious discussions to reform the discriminatory practices of the Board or face unilateral action under U.S. law for the damages and the burden they have placed on our wheat farmers.

This case has not been an attack on Canadian wheat farmers. It has been, however, verification of what farmers and many Members of Congress already know or have suspected about the Canadian Wheat Board's price undercutting and its negative impact on U.S. farmers. The Western Canadian Wheat Growers Association, whose wheat is controlled by the Board, has long cried out for true reform of the Canadian Wheat Board.

Previous trade agreements, including the Uruguay Round Agreement on Agriculture, have fallen short in their ability to effectively discipline the anti-competitive practices of state trading enterprises, like the Canadian Wheat Board. This oversight has long aggravated our fellow farmers in North Dakota, but it has also bedeviled wheat farmers all over the world. The Board, a government-sanctioned state trading enterprise, uses its monopoly power to distort trade in North America and third country markets.

Progress and reform of the international wheat market was steady throughout the 1990s, with

the notable exception of the Canadian Wheat Board. In 1990, 90 percent of all international wheat purchases were made by governments. That figure is now about 40 percent, and falling. I find it ironic that when allowed to enter the WTO, China agreed to more disciplines on its state trading enterprises, including the introduction of private-sector imports, than Canada - our major trading partner - has ever entertained. It is time for the Canadian Wheat Board to commit to negotiating a fair resolution of this wheat trade distortion. If this does not occur, they must face unilateral action by the U.S. government.

With the Canadian Wheat Board trade problem unresolved, it becomes increasingly difficult to convince our wheat farmer constituents how they can directly benefit from expanded trade opportunities. Past failures to address this trade problem have undermined farmers' confidence in trade negotiations. It is only appropriate that U.S. wheat farmers expect a fix to the inequities in past trade agreements by addressing the trade distorting practices of the Canadian Wheat Board. While our future lies in the expansion of export market opportunities, and fair competition for those opportunities, we must revisit and fix the inequities in the Canada-United States Free Trade Agreement and the NAFTA and address continuing trade distorting practices. Expanding the free trade area in which the Canadian Wheat Board can act, without addressing its monopoly position would be folly.

I hope this Committee and Ambassador Zoellick concur with such a view. Certainly, a prompt resolution of this problem will facilitate success in future negotiations for free trade agreements and the next round of WTO negotiations. One of the wheat industry's priorities in the WTO agriculture negotiations is the elimination of export state trading monopolies. It is also part of the formal U.S. position submitted for the negotiations in both the WTO and the Free Trade Area of the Americas. While this objective remains a high priority, it is becoming clear that once again the Canadian Wheat Board will do all in its power to maintain the status quo. In late March of this year, a director of the Board went before the Canadian House of Commons Agriculture Committee and insisted that the Government of Canada resist all efforts by the United States to restrict the activities of state trading enterprises in negotiations through the WTO and the FTAA negotiations. Thus, I fear that even if the Canadian Government indicates a willingness to enter into negotiations on the trade distorting activities of the Canadian Wheat Board, the Board will again use any power at its disposal to thwart efforts to bring true and meaningful reform to its activities and operations.

The only time the Board has restricted its unfair practices was after the 1994 Section 22 investigation - and it only acquiesced to limited imports once it knew the U.S. Government was serious and that import quotas would be forthcoming. The U.S. Trade Representative must act with equal resolve in this current dispute - as the Canadian Wheat Board operates from a position of power they will only respond to an opponent who operates from an equal basis of power.

The multi-prong approach that Ambassador Zoellick set forth in the Section 301 Finding is impressive, and again, we are supportive of this approach. But, there must be movement on

these matters soon and on all fronts.

Furthermore, Congress can play a significant role in showing the Canadian Wheat Board that this time around the matter will be resolved. In the short-term the National Association of Wheat Growers, Wheat Export Trade Education Committee and U.S. Wheat Associates urge you to encourage the Department of Agriculture to use the Export Enhancement Program to provide the needed response to Canadian Wheat Board pricing. The EEP program can be useful in gaining access to information so closely guarded by the Canadian Wheat Board and will help bring Canada to the negotiating table.

Mr. Chairman and members of this Committee, since wheat is an export dependent commodity, our options are limited to one-- to be fully engaged in efforts to make world trade free and fair. We believe in free trade so long as it encompasses fair trade. The Canadian Wheat Board's monopolistic practices are not fair trade.

In the long term, the WTO must discipline the way in which STE's are allowed to operate. If the U.S. is to have a strong role in making these changes a reality, the U.S. wheat industry believes they must have the backing of the U.S. Congress. One key element of support is legislation granting Trade Promotion Authority (TPA). TPA will enhance opportunities to sell quality U.S. wheat around the world. Granting TPA will send a strong signal to Canada and the world that the U.S. is committed to maintaining an aggressive leadership role in promoting free and fair trade. We need every tool available to make the markets work for us and you can provide some of those tools.

While we support the need for reform of state trading enterprises in the next round of WTO negotiations, it is clear that action is needed now on the Canadian Wheat Board's activities, in order to save the livelihood of our farms. We urge the Administration and Congress to continue their support for trade liberalization by providing short-term relief remedies as we all work towards the changes ultimately needed in the WTO.

Thank you, for this opportunity to appear before the Committee this morning. I look forward to answering any questions you may have.